US Commerce Cooper Says US Econ May Be Bottoming

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WASHINGTON -(Dow Jones)- Encouraging signs in recent U.S. data suggest the economy may be bottoming, but the lack of pent-up consumer demand means investment spending will need to be the main driver of the recovery, a top U.S. administration official said Friday.

"As we look at the indicators, we some signs bottoming may be very near and may be here. It's very difficult to say that's the case. We need to be very cautious," said Kathleen Cooper, Commerce Undersecretary for Economic Affairs.

Unlike during other recessions, household spending has continued to hold up amid the slowing economy, which means investment spending is going to have to propel the recovery, she told reporters.

"We are all banking on a turnaround in investment spending to get the economy going," Cooper said.

"Certainly by the middle of the year, I am confident the economy will be growing again," she added.

Recent data on business inventories, retail sales and housing have been further indications that the economy may be regaining its footing, Cooper said.

Retail sales for December came in better than expected, and inventory data show that firms have brought stocks into line with softer demand, setting the stage for a near-term pick up in production.

"Once sales turnaround, there should be a big boost to the economy from inventories," Cooper said.

Cooper also said there has been some stabilization in the information technology area, which leads her to believe capital spending will pick up in coming quarters.

"I think we'll see stabilization in the broader measures of capital spending in the next couple of quarters," she said.

"As far as how big of a rebound we'll see, we need to be cautious," she added.

Don't look for the consumer to help pick up the slack, she cautioned.

"It does not seem that we'll get the same bounce from the housing and auto sectors that has been traditionally the case," at the start of recoveries, Cooper said.

“We should be prepared for more limited growth as we move through the year," she said.

However, Cooper said she hopes household spending continues to "hold up" throughout this year.

When asked how she interpreted Federal Reserve Chairman Alan Greenspan's remarks on the U.S. economy last week, Cooper said he expressed caution on the economic outlook.

"He was saying that he sees good signs in the manufacturing sector, but we've been fooled before," Cooper said.

She said she believes there is a "good amount" of monetary stimulus in the pipeline to "get the economy moving in the right direction."

In his remarks last week, Greenspan cited a number of "significant" risks to the outlook. At the time, the markets viewed the speech as virtually clinching another 25-basis-point rate cut at the Fed's policy meeting later this month.

Treasury Secretary Paul O'Neill has said that Greenspan didn't intend his remarks to be taken in such a negative light. O'Neill's spin on Greenspan's speech and the recent spate of better-than-expected data have some in the markets rethinking whether another quarter-point cut is a done deal.

Turning to the trade deficit, Cooper said she sees "no reason" for the deficit to stop narrowing in the near term given the weakness in the economy and said it is going to take much stronger U.S. economic growth before that trend changes.

The Commerce Department reported Friday that the U.S. trade deficit narrowed to $27.89 billion in November from a revised $29.33 billion in October.

Imports fell 0.8% to $106.09 billion from October's $106.97 billion, reflecting a continued slowdown in the U.S. economy and falling oil prices. Meanwhile, exports rose 0.7% to $78.20 billion from a revised $77.64 billion.

However, exports have been falling over the past year amid the global economic downturn. Cooper cited that slowdown as the dominant factor crimping U.S. exports and acknowledged that the U.S. dollar's strength has also played a role.

When asked to gauge the impact of the dollar's strength on U.S. exports, she said: "I would never say there is no effect from the exchange rate, but the dominant factor has been a weak Europe and a very weak Japan."

U.S. manufacturers have long argued that the dollar's strength is making them less competitive as it makes their goods more expensive overseas.

The U.S. Treasury has long supported a strong dollar, arguing that it is in the national interest and plays a key role in keeping a lid on inflation.

The National Association of Manufacturers will be meeting with U.S.Treasury officials later today to discuss how manufacturers are being hurt by the dollar's strength. The NAM has said it believes the dollar is overvalued by 30%.

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